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FM AMEMBASSY QUITO  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7466  
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 6776  
RUEHCV/AMEMBASSY CARACAS PRIORITY 2617  
RUEHLP/AMEMBASSY LA PAZ JUL 0661  
RUEHPE/AMEMBASSY LIMA PRIORITY 1793  
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2589  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS QUITO 001701

SIPDIS

SENSITIVE  
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TREASURY FOR MMALLOY AND MEWENS  
STATE PASS TO OPIC/RGREENBERG

E.O. 12958: N/A  
TAGS: [EINV](#) [EC](#)  
SUBJECT: RESPONSE TO OPIC ON BANCO PROCREDITO

REF A: State 74213

B: Quito 1655

¶1. (SBU) Post welcomes OPIC interest in supporting the important microcredit and small-medium enterprise market in Ecuador (ref A). We had delayed responding given recent uncertainty regarding the outcome of Ecuador's controversial banking bill, but can now provide a fulsome response as the law has been passed by Congress.

¶2. (SBU) Banco ProCredito (BPC), the successor of Sociedad Financiera Ecuatorial S.A., was established in October 2001 by ProCredit Holding AG (formerly IMI) in Germany and the Dutch lottery fund DOEN. In September 2004, BPC received approval from the Superintendency of Banks to be transformed into a bank and converted into a fully operational bank in January 2005. BPC is headquartered in Quito, with 15 branch offices in 9 cities in the north and west of Ecuador. BPC has grown very quickly since its inception in October 2001 and has consolidated its position as one of the leaders in Ecuador's microfinance market. As of December 2006, BPC had \$130.8 million in assets; a \$47.4 million increase over the previous year. The loan portfolio grew by nearly \$40 million and approximately 10,000 accounts from the previous year, resulting in an outstanding loan volume of US\$117.5 million distributed among more than 40,400 micro and small entrepreneurs and rural producers. BPC received \$8.6 million in paid-in capital and generated US \$2 million in profits - an increase of \$1 million from 2005. BPC can now accept a range of deposits from the public which will fuel future expansion and development of new savings and loan products. Deposits more than doubled from 2005 to 2006 (from \$20 million to \$44.6 million) as did the number of accounts (from 15,500 to 43,000).

¶3. (SBU) The banking law that was passed by Congress (ref B) entered into effect on July 26, 2007. Initially, the administration's bill proposed strong political controls over the banking sector, but Congress substantially modified the bill to establish more limited controls, which the banking sector found relatively acceptable. The legislation prohibits commissions, sets interest rate ceilings by market segment (commerce, consumption, housing and microcredit) and gives the Central Bank the authority to establish the methodology to calculate the effective rate of interest. Banks claim that the law's maximum interest rate formula will tend to move interest rates towards a fixed rate within six to eight months. President Correa is not satisfied with the new law because it does not provide for a low enough interest rate ceiling, and has vowed to seek stronger control of the financial sector through the Constituent Assembly later this year.

14. (SBU) Comment: OPIC is considering a project with an efficient and leading institution servicing micro and small businesses as well as rural producers. Under a stable environment for the banking sector, the project would have a positive impact in underserved sectors of the economy. While the project seems positive, the potential for changes in the Constituent Assembly to the legal framework for the banking sector, possibly including greater government control and lower mandatory fixed interest rates, could further disrupt the financial sector, particularly for microcredit. End Comment.

BROWN